

EXPLOITATION /

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DATE: 29 August 1953

TO WHOM IT MAY CONCERN: Deputy Director/Intelligence

SUBJ CAT: Comments on Isaac Jassy's letter on the Soviet budget  
in the Washington Post.

1. We are in agreement with the main point of Jassy's letter. The 1953 budget as announced does not support the contention that military appropriations are going to be 25 percent higher (Washington Post article position) than in 1952.

2. Jassy's argument is that the increase in disclosed expenditures coincided with a decrease in disclosed revenues and an overall decrease in surplus do not leave room for a 25 percent increase in military expenditures. He explains away the large increases in the undisclosed expenditures and revenues as a bookkeeping fiction.

3. Jassy's analysis is weakened by his confusing notion of the function of a budget surplus. In attempting to relate it to monetary policy he conceives of a surplus as a stock of cash that can be placed in circulation through the medium of bank loans in some subsequent period. Actually the function of a budget surplus is to neutralize the expansionary effect of bank credit extension within the same time period by taxing away "excess" purchasing power. He is correct in stating that a budget has decreasingly deflationary effects, the smaller its surplus. However, his notion that a surplus is "carried over" from one year to another is illusory.

4. Jassy's explanation of the increase in undisclosed expenditures and revenues is that the 13 billion rubles saving to the population from the April price cuts has been arbitrarily added to both sides of the budget. This is one of several possible explanations. Other possible explanations are inclusion of purchases and sales from stocks and changes in budget coverage and classification. Finally it is also possible that some part of the undisclosed increase is an increase in defense and is covered by a real increase in revenues of unannounced origin. Our's position is that a very large (25 percent) increase in defense expenditures is impossible if the Soviets seriously attempt to implement the announced investment and consumption plans. An important rise of the order of several percent, however, would not be inconsistent with these plans.

5. Jassy is clutching at straws in trying to explain a rise in the real value of defense outlays by reductions in procurement prices.

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There have been no announced producer goods price reductions in 1953. The bulk of military purchases consist of non-consumption items. The price decreases for consumer goods have consisted largely of reduced turnover tax rates. Since it is doubtful that military consumers pay turnover taxes, there would be little benefit accruing to the defense establishment from consumer reductions.

OTTO E. WELTZ  
Assistant Director  
Research and Reports

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